IN THE

SUPREME COURT OF THE UNITED STATES

October Term, 1979

No. 79-519

HANDGARDS, INC.,

Petitioner-Cross-Respondent,

— v. —

ETHICON, INC.,

Respondent-Cross-Petitioner,

BRIEF OF ETHICON, INC. IN OPPOSITION

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BRIEF OF ETHICON, INC. IN OPPOSITION

Ethicon, Inc. ("Ethicon") submits this brief in opposition to the petition for a writ of certiorari filed by Handgards, Inc. ("Handgards").

Opinions Below

The majority and concurring opinions of the Court of Appeals, as modified on petition for rehearing, are reported as *Handgards, Inc.* v. *Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979).* The pertinent opinions of the District Court for the Northern District of California are reported as *Handgards, Inc.* v. *Johnson & Johnson*, 1976-2 Trade Cases ¶61,138 (N.D. Cal. 1975) (denying Ethicon's post-verdict motions) and as *Handgards, Inc.* v. *Johnson & Johnson*, 413 F. Supp. 921 (N.D. Cal. 1975) (granting in part and denying in part Ethicon's motion for summary judgment).

Jurisdiction

The judgment of the Court of Appeals for the Ninth Circuit was originally entered on May 3, 1979. The Court denied a timely petition for rehearing on July 27, 1979, and issued opinions revising both the original majority and concurring opinions. The petition for a writ of certiorari was filed within 90 days of that date. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

Questions Presented

1. May Handgards recover an antitrust verdict based upon Ethicon's "bad faith prosecution" of a single, prior, unsuccessful patent infringement action, where the jury is instructed that

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* The opinion is reproduced as the Appendix to the cross-petition for a writ of certiorari filed by Ethicon in this case on October 25, 1979.

a mere preponderance of the evidence is sufficient to prove bad faith prosecution?

2. Must the verdict be reinstated despite admitted errors in the charge with respect to damages?

Statement of the Case

This is a private antitrust action in which Handgards won a verdict of $2,073,000, before trebling, based upon Ethicon's alleged monopolization, in violation of Section 2 of the Sherman Act, 15 U.S.C. § 2, of a market defined as heat-sealed plastic gloves sold to manufacturers of home hair-coloring kits. Handgards based its antitrust claim upon Ethicon's prior unsuccessful attempt to enforce a patent Ethicon held on a process for manufacturing such gloves. The Court of Appeals for the Ninth Circuit reversed the judgment based upon errors in the trial court's charge to the jury respecting the proper standard of proof and damages.

The Statement of the Case set forth in Handgards' petition at pages 6-10 is essentially accurate. Ethicon merely adds the following.

On the issue of damages, Handgards argued to the jury that it should recoup, *inter alia,* (1) the costs incurred in defense of the prior patent infringement action and (2) lost profits Handgards would have earned during the ten-year period from 1964 through 1973 by excluding the only other major competitor in the market. Handgards contended, and the jury found, that prosecution of the patent case prevented Handgards from effectuating this exclusion.

The trial court submitted the case to the jury on the "bad faith prosecution" theory, instructing the jury that "[the prosecution] of one or more ill-founded patent infringement actions in bad faith . . . constitutes an antitrust violation in and of itself if such suits are initiated or pursued with an intent to monopolize. . . ." *See* 601 F.2d at 994 n.15. "Bad faith" was defined as "knowing either at the time the lawsuit is filed or during its

pendency that the particular patent sued upon is invalid." Proof of bad faith, the trial court charged, could be shown by a mere preponderance of the evidence; that is, by proof that the proposition is "more likely true than not." *Id.*

With respect to the damages available to the plaintiff for lost profits, the trial court instructed the jury that the plaintiff could recover as damages profits lost as the "proximate result" of any antitrust violation. 601 F.2d at 997. "Proximate cause" was defined as "an act . . . [that] played a substantial part in bringing about" the injury. *Id.* The trial court did not instruct the jury that any compensable loss "should reflect the anticompetitive effect" of any antitrust violation, and that any compensable loss must be "of the type the antitrust laws were intended to prevent," as required by *Brunswick Corp.* v. *Pueblo Bowl-O-Mat, Inc.,* 429 U.S. 477, 489 (1977). Instead, it permitted a recovery based upon a speculative damage schedule which included as an element of damages lost profits resulting from the entry into the market of an additional competitor.

Based on these instructions, the jury returned a general verdict in favor of Handgards in the amount of $2,073,000 before trebling. In response to certain special interrogatories, the jury found that Ethicon possessed a valid product patent covering the relevant market (the Orsini patent), but that it had prosecuted the prior infringement action in bad faith; that is, with knowledge that the Gerard process patent was invalid. Ehticon's post-verdict motions were denied, the trial court retreating from its 1975 opinion that a "series" of bad faith lawsuits are necessary to constitute an antitrust violation, *see* 413 F. Supp. at 924-25, and now holding that a single bad faith infringement suit "alone is sufficient to support the verdict." *See* 1976-2 Trade Cases ¶61,138 at 70,143 (N.D. Cal 1976).

On appeal, the Ninth Circuit unanimously reversed the judgment on two grounds. The opinion of the Court, per Sneed, J., as well as the concurring opinion, per Kennedy, J., held that the trial court erred in instructing the jury that bad

faith prosecution of a patent could be proved by a mere preponderance of the evidence. Rather, the jury should have been "instructed that a patentee's infringement suit is presumptively in good faith and that this presumption can be rebutted only by clear and convincing evidence." 601 F.2d at 996. The Court of Appeals noted that its holding in this regard was "suggested by *Walker Process* [*Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965)]." *Id.* The Court concluded that a standard permitting proof by a mere preponderance of the evidence " 'might well chill' legitimate patent enforcement efforts 'because of fear of the vexations or punitive consequences of treble-damage suits.' " 601 F.2d at 996, quoting *Walker Process, supra,* 382 U.S. at 180 (Harlan, J., concurring).

Both opinions also found reversible error in the trial court's charge to the jury "concerning the nature of the injuries for which plaintiff properly may recover damages . . . ." 601 F.2d at 996-97. Relying on *Brunswick Corp.* v. *Pueblo Bowl-O-Mat, Inc., supra,* 429 U.S. 477, the Court of Appeals held:

> "Plaintiff must show that the injury for which it seeks to recover is 'the type the antitrust laws were intended to prevent' and 'flows from that which makes defendant's acts unlawful.' In a suit alleging antitrust injury based upon a bad faith prosecution theory it is obvious that the costs incurred in defense of the prior patent infringement suit are an injury which 'flows' from the antitrust wrong. Damages for the loss of profits, however, will not necessarily so flow. We have some doubt, for example, whether plaintiff's damages claim for lost profits allegedly resulting from the entry of an additional competitor into the market during the pendency of the infringement suit is the type of injury for which antitrust recovery is appropriate. 'The antitrust laws . . . were enacted for "the protection of *competition,* not competitors." ' *Brunswick, supra,* 429 U.S. at 488, (quoting *Brown Shoe Co.* v. *United States,* 370 U.S. 294, 320 (1962)). Moreover, the jury's finding in this case that Ethicon possessed a valid patent covering the market

it was accused of monopolizing also raises doubts concerning whether plaintiff's lost profits 'flowed from' the antitrust wrong claimed in this case.

The court's charge concerning the damages available to plaintiff for lost profits is ambiguous . . . . The court [charged the jury] that plaintiff could recover as damages profits lost as the 'proximate result' of the antitrust violation. . . . The court earlier had defined the term 'proximate cause' to mean 'an act . . . [that] played a substantial part in bringing about' the injury. . . . According to *Brunswick,* plaintiff must show more than that it suffered injury causally linked to the antitrust violation; the injury must be shown to have 'flowed' from the wrong. To 'flow' from the wrong, *Brunswick* suggests, the loss must be 'the type of loss that the claimed violations . . . would be likely to cause.' 429 U.S. at 489. The injury must be of the type likely to be caused by the defendant's bad faith infringement action. *On the record before us we are left in doubt whether the Brunswick test has been met with respect to plaintiff's claim for lost profits. The failure of the trial court to resolve this doubt specifically constitutes error.*" 601 F.2d at 997 (emphasis added)

In his concurring opinion, Judge Kennedy noted that this Court's *Brunswick* decision is "squarely in point for our holding that the injury must result from a competitive wrong prohibited by the antitrust laws. . . ." 601 F.2d at 999. Furthermore, Judge Kennedy "agree[d] that the effect of the Orsini patent [the product patent which the jury found valid and which covered the relevant market] on plaintiff's claim of injury creates an issue which the district court should decide." *Id.*

Accordingly, the Court of Appeals reversed the judgment of the district court and remanded for a new trial.

ARGUMENT

I. THE COURT OF APPEALS' APPLICATION OF A "CLEAR AND CONVINCING EVIDENCE" STANDARD IS A ROUTINE APPLICATION OF PRECEDENT AND IS IN ANY EVENT CORRECT

Handgards argues that the Court of Appeals' application of a "clear and convincing" standard of proof stems from a "misinterpret[ation]" of the decision in *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp., supra,* 382 U.S. 172. Prior to the decision below, however, every Court of Appeals which had considered the question had held, in accordance with *Walker Process,* that an unsuccessful patent suit could be transformed into an antitrust violation only if the patent had been fraudulently procured.* Further, every Court of Appeals had held that in such cases, where the patent and antitrust laws must be accommodated, proof of the fraud—the gravamen of the antitrust claim—must be by clear and convincing evidence.** Thus, in directing the application of the "clear and convincing" standard here, the decision below is nothing more than a routine application of well-entrenched precedent in the patent-antitrust field, requiring that the gravamen of the antitrust claim—here, bad faith—be proved by clear and convincing evidence. Accordingly, this aspect of the decision below presents no special or important question and does not merit review.

Handgards further contends that the heavy burden of proof imposed in a *Walker Process* case is improper here, since Handgards sought to prove a less stringent "bad faith prose-

* The holding of the court below, that an antitrust claim may be predicated upon a single unsuccessful attempt to enforce a patent not procured by fraud, is the subject of Ethicon's cross-petition for a writ of certiorari, filed in this case on October 25, 1979.

** *See, e.g., Kearney & Trecker Corp.* v. *Cincinnati Milacron, Inc.,* 562 F.2d 365 (6th Cir. 1977); *Norton Co.* v. *Carborundum Co.,* 530 F.2d 435 (1st Cir. 1976); *Cataphote Corp.* v. *DeSoto Chemical Coatings, Inc.,* 450 F.2d 769 (9th Cir. 1971), *cert. denied,* 408 U.S. 929 (1972); *Bendix Corp.* v. *Balax, Inc.,* 471 F.2d 149 (7th Cir. 1972).

cution" theory, rather than the *Walker Process* fraud theory. The Court of Appeals, however, correctly rejected this illogical argument. The Court of Appeals held that an antitrust claim may be based upon the mere bad faith prosecution of a patent, and that proof of fraud in the procurement of a patent is not the only route to a treble damage verdict. Having thus diluted the *Walker Process* requirement of proof of intentional fraud in the procurement of the patent, the Court of Appeals correctly recognized the continued need "to provide the means whereby the bad faith infringement action can be identified post hoc with a sufficiently high degree of certainty to make it highly improbable that the action in fact was brought in good faith." 601 F.2d at 993. This means was "suggested by *Walker Process,*" 601 F.2d at 996, and its standard of proof rules.

In so holding, the court below was clearly correct, assuming *arguendo* the validity of the premise that the bad faith prosecution of a single patent infringement suit states an antitrust claim for relief. The dangers inherent in lowering the *Walker Process* barriers, and substituting a "bad faith prosecution" test, are manifest. As outlined in Ethicon's cross-petition for a writ of certiorari at pages 10-15, lowering those barriers removes the prophylaxis accorded to patent infringement suits and holds patentees *in terrorem* when considering action to enforce their constitutional and statutory right to exclude an infringer from practicing the invention disclosed in the patent.

The Court of Appeals recognized these dangers and properly concluded that it could go no further than it did without wholly emasculating the incentive for obtaining a patent. Requiring the antitrust plaintiff to meet a higher burden of proof correctly allocates the risk of error between the litigants, and recognizes the need for certainty before imposing highly punitive treble damages. *Cf. Addington* v. *Texas,* 99 S.Ct. 1804, 1808 (1979) (essential function of a burden of proof is to reflect society's relative concerns regarding possible errors in the judicial process); *Collins Securities Corp.* v. *Securities and Exchange Commission,* 562 F.2d 820 (D.C. Cir. 1977). To

have doubly diluted the *Walker Process* requirement by omitting the usual requirement of clear and convincing proof would have upset all remaining balance between the patent and antitrust laws, and the court below correctly eschewed such a rule.

Handgards also suggests that a higher burden of proof is unfair because it had already "met this high burden once" by proving the Gerard patent invalid in the patent suit. *See* Handgards' petition at pages 11-12. But it does not follow from winning a case under a high standard of proof that the losing side acted in bad faith. Indeed, the Ninth Circuit in affirming the judgment in the patent case also affirmed Ethicon's *bona fides* in pursuing the action, stating that the case was one which "could have been decided either way." *Ethicon, Inc.* v. *Handgards, Inc.* 432 F.2d 438 (9th Cir. 1970), *cert. denied,* 402 U.S. 929 (1971). The trial court in the patent suit specifically rejected a finding proposed by Handgards that Ethicon prosecuted the action in bad faith, and Handgards therefore did not seek an award of attorneys' fees available under the patent laws for bad faith prosecution. *See* 35 U.S.C. § 285.

Handgards' argument, moreover, overlooks the fundamental point that the invalidity of the Gerard patent was not in issue in this antitrust case. The issue for the jury in this case—whether Ethicon "knew" Gerard was invalid when it brought its prior action—had never before been proven by Handgards. No matter how clearly invalid the patent may have been, it was Ethicon's bad faith which was at issue, which had never before been proven and which the court below required to be proved by clear and convincing proof.

Finally, Handgards raises the spectre that the requirement of clear and convincing proof will be extended beyond the bounds of this case to all cases in which antitrust policy and some other policies must be reconciled, to all "attempt to monopolize" cases and finally, to all §1 "rule of reason" cases. But these fears are baseless and transparent. To remove any possibility of such extension, the court below on rehearing revised its original opinion and added the observation that the

"barrier [to antitrust suits] we impose is not one intended to be utilized in antitrust litigation generally. It is fashioned in response to the unique characteristics of proceedings in which the alleged violation of the antitrust law consists solely of one or more infringement actions instituted in bad faith." 601 F.2d at 996. Logically, moreover, the decision has no application to cases outside the patent-antitrust interface, since it draws on *Walker Process* and applies a standard of proof which is commonplace and essential only in the patent-antitrust field. Accordingly, the decision below is limited by its language and logic to cases presenting a clash between the patent and the antitrust laws. Thus, Handgards' claimed fears of extension of the burden of proof rule into other antitrust areas are baseless and do not warrant review by this Court.

II. THE PETITIONER'S CLAIM THAT THE COURT OF APPEALS ADOPTED A NEW TEST FOR "PROXIMATE CAUSE" MISREADS THE OPINION BELOW AND IS A PHANTOM ISSUE NOT MERITING REVIEW

Handgards also seeks review of the question whether "an antitrust plaintiff whose claim is based upon the bad faith prosecution of a patent infringement claim [is] required to prove that the bad faith prosecution was the *sole* cause of its lost market opportunities. . . . " *See* Handgards' petition at page 4 (emphasis in original). The Court of Appeals, however, reversed and remanded this case for errors in the jury charge on damages unrelated to matters of proximate cause. Handgards does not even seek to have these errors reviewed in this Court. Thus, the issue sought to be reviewed by Handgards is academic because a new trial would be required in view of the unchallenged errors infecting the verdict.

As to damages, the Court of Appeals reversed the judgment of the district court for two reasons. First, the jury was not instructed that any antitrust damages must "flow from" the antitrust violation and that to flow from the wrong, the loss must be "the type of loss that the claimed violations . . . would be likely to cause." *Brunswick Corp.* v. *Pueblo Bowl-O-Mat,*

Inc., supra, 429 U.S. 477. *See* 601 F.2d at 997. Without such a charge, the jury improperly awarded Handgards a recovery for profits which it would have earned as a result of the exclusion from the market of an additional competitor. To quote Handgards (petition at page 17), "[s]uch an argument stands antitrust on its head. . . . " The Ninth Circuit panel was unanimous in holding that such a recovery was squarely precluded by *Brunswick*. *See* 601 F.2d at 996; *id.* at 999 (Kennedy, J., concurring).

Second, the court below reversed because "the jury's finding . . . that Ethicon possessed a valid [product] patent covering the market it was accused of monopolizing also raises doubts" whether Handgards is entitled to recover any damages at all. Any exclusionary conduct by Ethicon might well have been nothing more than the exercise of the statutory and constitutional rights guaranteed to a patent holder to exclude others from practicing his invention. Since the trial court had not addressed this problem as it affected the quantum of damages, reversal was proper.

Thus, this case is an improper vehicle for resolving the question whether the charge on proximate cause was correct. The jury verdict and the judgment of the district court had to be reversed due to the above-noted errors. Handgards in effect admits that the reversal on these issues was correct, since it does not seek review of these issues in this Court. Handgards does not contend, nor can it contend, that the jury verdict could be reinstated if this Court found error in a supposed holding on proximate cause. Thus, whatever this Court did on the proximate cause issue, the admitted errors in the charge permitting a recovery for legally non-compensable injuries, would still require a new trial. Review of the proximate cause question raised by Handgards would therefore be an academic exercise which could not affect the result.

In any event, the holding of the court below on the damages issues was clearly correct. Assuming that the Ninth Circuit was correct in diluting *Walker Process* to include a case "where the alleged violation of the antitrust law consists solely

of one or more infringement actions initiated in bad faith," the Court was unarguably correct in ruling that in such a case, it is "not enough" for the prosecution of the prior patent action "[t]o be one of several causes" of the antitrust plaintiff's injuries. *See* 601 F.2d at 997.

CONCLUSION

For the foregoing reasons, Handgards' petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Ninth Circuit should be denied.

Respectfully submitted,

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